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Monthly Deliveries

versus

Season (and Year) Deliveries.

THE FIVE DAYS NOTICE

AND ITS INJURIOUS EFFECTS ON THE
LEGITIMATE GRAIN TRADE
OF SAN FRANCISCO.

ISSUED FOR PERUSAL OF THE MEMBERS OF THE
SAN FRANCISCO PRODUCE EXCHANGE CALL BOARD, BY PHILIP GEROLD,
A MEMBER OF SAID BOARD.

SAN FRANCISCO, CAL.

FEBRUARY, 1887.



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Call Boards.

Produce Call Boards are institutions established for the purpose of selling and buying *little pieces of paper* called warehouse receipts. The latter are sometimes for wheat, cotton, lard, or high wines, and sometimes for mess pork, barley, oil, bran, or for some other commodity.

When the transfer of the warehouse receipt (sometimes called elevator receipt) is to be effected immediately, the transaction is called a *spot sale*. Hence the words: spot cotton, spot wheat, spot lard, spot bran, etc., etc.

When the transfer of the warehouse receipt is to take place at a future date, a *contract* is drawn up designating the time within which the delivery of the warehouse receipt is to take place.

The leading Produce Call Boards of the world are those of New York, Chicago, St. Louis, Liverpool, Hamburg, Berlin, Stettin, etc., etc.

The essential *difference* between these Boards and the San Francisco Board consists in the fact that in all of the above named Boards the seller is privileged to make delivery *on any day* he chooses (within the time designated in the contract), whilst in San Francisco the delivery of the warehouse receipt cannot be made unless *five days notice* shall have been previously given.

Origin of the Five Days Notice.

The origin of the "five days notice" is unknown. Some parties consider it a remnant of mining share dealings. Others say that it originated in the idea that the buyer (before being obliged to pay for the stuff bought), should have five days time granted to him, during which he might examine, try or test the commodity tendered to him. In the latter event, the

intention has miscarried, because, even now in our Board, no time for examining is granted to the buyer, as he does not learn in which of the regular warehouses the grain will be tendered, until the very moment when he must pay for the grain forthwith.

The experiment of running a Produce Call Board *with* a five days notice provision had, up to 1882, never been tried anywhere. Nobody could have foretold *then* what the effect would be. In 1882 it was first tried in San Francisco, and the result is now shown by the fact that the leading Call Boards of the world deal every day:

1. In *Monthly Deliveries*, and
2. In *Spot Deliveries*.

Whilst the San Francisco Board deals:

1. In *Season (and Year) Deliveries*, and
2. *Scarcely in any Spot Deliveries*.

Monthly Deliveries versus Season (or Year) Deliveries.

Generally speaking, it can be stated that almost *any kind of* an option contract will do for a speculator to operate in, *provided* an active and fluctuating market in said option can be created by other speculators operating likewise in such option. He would certainly not object to deal in buyer century wheat or in seller century barley *if it paid him* to do so. For the same reason he would deal in buyer year barley or in buyer season wheat, or perhaps even in puts or in calls or in straddles, etc., etc.

But the legitimate requirements of the grain trade are a *very different matter!* They everywhere demand monthly deliveries and *no others!*

Business men cannot afford to pay *firstly* the market price for the grain they are in want of, and *secondly* something additional for the right of calling for said grain.

It will therefore be understood that for the legitimate trade wants, buyers' option contracts are not serviceable, and, excepting in very rare instances, are of no use. Accordingly, only sellers' option contracts remain to be considered here.

Now take for instance a proprietor of a FEED MILL, who, for manufacturing rolled and ground barley, requires eight hundred tons of barley per month. He concludes that present prices are low, and therefore sends orders to our Board for 800 tons March and 800 tons April barley, only to find out that monthly deliveries are not to be had at current prices in our Board. Of course seller season barley is offered to him, but for that option he has no use, as he might against the same not get a sack of barley delivered to him *until May 31st*, and meanwhile his feed mill would have to remain idle.

Take further a WHEAT SHIPPER, who has chartered a 1,500 ton ship, to arrive here in March, and a 1,200 ton ship to arrive and to load here in April. Supposing some information reaches said shipper making him desirous to secure the cargoes for his ships promptly. He sends orders into our Board for one contract of 1,500 tons March wheat, and for one contract of 1,200 tons of seller April wheat. These contracts he expects to resell again in our Board, if one or both of his ships should be lost or not reach our port. In reply, he is informed that monthly deliveries are scarcely ever dealt in with us, or cannot be had except at fancy figures. The only sellers' options dealt in are seller season and seller 1887 options, but these our shipper cannot handle, as against them the wheat might be tendered to him already five days hence, when he *has not yet a place to put it*, or he might not get any wheat against these contracts until May 31st or December 31st next, by which time he needs no more wheat. That shipper has no use for our Board.

The FLOUR MILLER, whose mill has a capacity of say 1,100 tons of wheat per month, and who believes present prices safe, would like to buy in our Board 1,100 tons seller February, 1,100 tons March, 1,100 tons April and 1,100 tons May wheat, but he cannot do so because monthly deliveries are not dealt in. Seller season delivery is absolutely useless for his requirements, as by buying the same he might have to wait for wheat until May 31st, and be obliged to stop running his mill until then.

The commission merchant who has received, or is sure of receiving, orders to ship No. 1 Feed barley to Northern California, to Honolulu or to South America is most willing to pay commissions to a member of our Board if he can thus secure him 300 tons of seller March and 500 tons of seller April barley. But he is informed that monthly deliveries are not regularly dealt in with us. Accordingly he makes arrangements for the furnishing of said barley with a party in San Jose, Salinas or Stockton, and that party pockets the commission instead of a member of our Board getting it.

Finally, take the manager of a *Street Horse-Car Company*, who requires 200 tons of No. 1 feed barley per month for feeding his horses and mules, and who considers present prices tempting. He sends orders to our Board for 200 tons seller February barley, 200 tons March and 200 tons April barley, none of which he can obtain, monthly deliveries not being handled in our Board, and by trusting to seller season barley contracts he might not obtain a sack of feed barley until May 31, 1887, by which time, unless he had in the meantime supplied himself elsewhere, his animals would have died of starvation. Thus he also sends his orders elsewhere instead of to our Board.

The foregoing described instances furnish abundant reasons for discarding the season (or year) deliveries and substituting monthly deliveries in their place, especially as the speculator (if compelled to), will operate in the latter just as much as in season (or year) deliveries.

A very simple remedy would bring about *easily* and *promptly* this (in my humble opinion) very desirable change. It consists in the repeal of the five days notice provision by amending Rules 8 and 12 accordingly.

Dealings in monthly deliveries are rendered almost impossible in our Board as long as a provision remains in force requiring "five days, three days, one day or one half days notice to be given before delivery can be made or demanded against a contract."

There are and always will be plenty of parties in our Board, who, for as *short a period as one certain month*, will bind themselves to take delivery of a certain lot of grain (i. e., of a certain warehouse receipt) *at any day* during the delivery month, and to give as soon as tendered a check for the same at the price agreed

upon, but there are and always will be only few parties in our Board who will bind themselves to have the cash ready at any moment, and for *as long a period as a year or a season*, for taking delivery, and of course, even these few parties would agree to buy such long options at very low prices only.

Thus it will be understood that if the five days notice provision was abolished in our Board, monthly sellers' options would invariably command *higher figures* than season or year options.

The latter would, therefore, but very seldom be made use of by parties who desire to sell grain; in other words, monthly deliveries would be almost exclusively dealt in.

Concerning buyers' options it remains to be said that the same would be then seldom sold here because a member who would then do so *without having the grain ready* in warehouse or under his *absolute control* would be considered a swindler, as he is to-day in every American Produce Call Board excepting in San Francisco, where the matter is somewhat modified on account of the five days notice in force here.

Financial.

The foregoing chapter illustrates the fact that the legitimate grain trade is as yet almost prohibited from participating in the dealings of our Call Board. This is further evidenced by the rather unfavorable showing hitherto made by our Grain Inspection Fund, which in other Boards is a *large source of revenue* to the members.

It is not denied, in case two cargoes of California wheat arrived for sale on the English coast, i. e. two cargoes in all respects *similar*, excepting that the *one was covered* by the certificates of our Inspector and the other was *not*, that the former cargo would fetch a higher price than the latter.

At the time when I was in Liverpool I heard a great deal about English reclamations and arbitrations on California wheat cargoes, and these reclamations were proportionately heavier than those on wheat cargoes arriving from Atlantic ports of the United States. Already then several parties in Liverpool expressed to me their belief that this circumstance was owing to the fact that the

cargoes from Atlantic ports were all made up of wheat officially inspected, whilst the California cargoes contained no wheat that had passed an official inspection.

It is probable that some shippers will, before long, find it to their interest to dispatch only inspected cargoes from here, the same as they do from Baltimore, Philadelphia, New York, Boston, etc.

Already now shippers of feed barley prefer invariably, barley officially inspected, if obtainable, to barley inspected by irresponsible parties.

In the event of our five days notice provision being repealed, it is pretty certain that our Grain Inspector and his assistants would be required to inspect in the course of a season, at least 300,000 tons of grain. In other words, this would mean a net income from that source alone, to our Board, of at least \$8,000 *per annum*, i. e., *more* than the total of annual dues now paid by the members.

In the event of the repeal, there would naturally take place a vast increase in the business of our Regular Cali Board Warehouses, mostly I admit, to the detriment of the numerous grain warehouses in the interior.

Should our shippers conclude to ship only inspected wheat, the practice (unknown elsewhere), of sending drummers into the interior, for the purpose of securing wheat cargoes, would of course be discontinued, and thus San Francisco grain commission merchants and grain brokers would earn at least \$250,000 *per annum*, commissions *in addition* to what they have hitherto been earning yearly.

Spot Grain.

The main reason for demanding the repeal of the “five days notice provision,” is that, (other conditions being equal), it renders to the seller the settlement of a contract by actual delivery *more expensive* than by substitution of an equivalent contract.

The party who expected a decline in the market, who did sell for future delivery, and who finds his expectation realized has

two ways of pocketing his profit made, and he will always select the way which leaves him *the largest profit* on his operation.

These two ways are the following:

1. He can purchase the Spot grain on call for delivery to the buyer named in his contract; or,
2. He can substitute another member's contract for his own.

The former way (*but only as long as the five days notice provision remains in force*), is more expensive and more risky than the second way. Actual delivery would be the *cheapest way* of settling a contract if it was not for the five days notice provision. If the latter was abolished there would be at *every session* of our Board numerous bids for Spot wheat and Spot barley. The five days notice provision thus becomes almost a prohibition for dealing in Spot grain in our Board.

It is evident that farmers (or their agents) and grain dealers generally, *will not* sell regularly Spot grain in a Board where, as the official record shows, but very few purchases of Spot grain are effected.

Elevators.

I am told that some parties object to the repeal of the five days notice, because we have *no grain elevators* in California.

Having lived in St. Louis, Chicago and New York, I beg to assure those parties that there are no cotton elevators, or lard elevators or high wine elevators in those cities. However, notwithstanding this fact, very large transactions in the commodities named, are daily made in those Boards.

Our warehouse system is a far more economical and *cheaper* way of handling grain, than the elevator system in the Eastern States. It possesses several advantages over the latter, one of them being that there is certainly *less danger* of having heated grain delivered against our warehouse receipts, than against an elevator receipt in Eastern cities.

A meeting of the California State Grange held at Stockton in March, 1882, decided *adversely* on the advisability of establishing a system of grain elevators on the Pacific Coast.

The storage charges on : 100 tons of grain at Chicago, from

April 15th to the 15th of April of the following year, amount to \$483—whilst the same in San Francisco would not exceed \$200.

In Rebuttal.

After having read all of the foregoing chapters, a party might still object to a repeal of the five days notice provision on the following grounds:

“There is no rule forbidding members to deal in monthly
“options *with* the special clause, (to be mutually agreed
“upon), that the five days notice be waived. Now, why
“don't they do so?”

The above objection may look apparently well taken to the uninitiated, but to all experienced dealers *on the floor*, the fallacy of the above objection will be very apparent.

The principal dealings in *any* Board, can only be those of the *general contract* of said Board, the terms of which must be laid down in the *By-Laws of said Board*.

The possessor of a contract which cannot be readily exchanged with the other contracts dealt in, finds himself invariably at a great disadvantage. He may be compared to a railroad train switched off on a side track, waiting for a chance to get along on the main track should it happen to be unoccupied by other traffic.

Value of Seats.

Very often *over one half* of the total quantity of wheat afloat from the United States for Europe is wheat shipped from *our* port. The immense importance of San Francisco as a grain centre is most ably described in the address of our respected President, delivered at the last annual meeting of the Produce Exchange.

The total present value of the seats of the New York Produce Exchange Board aggregate about.....\$7,500,000

Those of Chicago..... 8,400,000

Those of St. Louis..... 3,300,000

Should the same facilities for making deliveries be accorded

to the seller in our Board, as are granted to the seller in every other Produce Call Board, there is not a doubt that (within less than a year thereafter) the total value of the seats of our Board would aggregate at least \$1,000,000.

The market value of a seat in any Board is determined by the amount of commissions, that those of the members, who are engaged in the brokerage commission business, can earn. It is *not* determined by the losses and gains of speculators who may operate in said Board.

For the present (as explained on pages 5 and 6), there is, as a rule, in our Board *only the speculator* to earn commissions from. As a rule he is adverse to paying liberal or any commissions. Frequently he prefers to buy a seat for himself and to become his own broker.

It is therefore not surprising that commissions thus far, are hard to earn in our Board, and that consequently prices for seats are low. It will be different if the seller is ever permitted in our Board to make delivery of a piece of paper, which he has sold *without* being obliged to give first five days notice.

Appendix.

The views expressed in this pamphlet, and the suggestions contained therein, are not those of my own invention. They are simply copied from what I saw in other cities, and from that which an enlarged and enlightened experience has shown to the grain trade elsewhere, to be useful and necessary.

This pamphlet advocates the adoption of a measure which is in successful operation in all other American Produce Call Boards.

SAN FRANCISCO, February, 1887.

PHIL. GEROLD.





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